

ESTATE PLANNING

Powerful Ideas: ABLE Accounts



Powerful Ideas: ABLE Accounts

An ABLE account is a special type of tax advantaged savings account designed to assist and accommodate people with disabilities. The Stephen Beck, Jr., Achieving a Better Life Experience Act (ABLE Act) became law in December of 2014 and permits eligible individuals to save up to \$100,000 and pay disability related expenses from an ABLE account without losing their eligibility for government benefits. ABLE accounts function much like a cross between a first-party special needs trust, a Section 529 education savings account, and a checking account.

ABLE accounts share an advantage that self-settled special needs trusts enjoy in that the assets do not disqualify its owner for public benefits, since the funds in the account do not count toward the asset or resource limits established by government benefit programs, such as Medicaid and Supplemental Security Income. Also, just like a self-settled special needs trust, the assets may be subject to governmental reimbursement of expenses upon the death of the ABLE account's owner. However, the two differ in that the expense to open an ABLE account is only a fraction of the cost it would take to have a special needs trust drafted.

ABLE accounts function like a Section 529 education savings account in that the assets grow tax free, may only be used for qualifying expenses, and are subject to contribution limits. Also, the qualifying expenses permitted include housing, which would normally count against the recipient. For those with modest incomes, ABLE account contributions may be eligible for the Retirement Savings Contributions Credit or Saver's Credit allowing for a partial tax credit. Only \$18,000 (in 2024), cumulatively, may be contributed annually to the ABLE account. However, an eligible person with special needs may contribute his or her earnings up to the federal poverty level guidelines (\$14,058 in 2024 for an individual in the continental U.S.) in addition to the annual contribution limit. A Section 529 account may be rolled over or transferred to an ABLE account; however, an owner may only have one ABLE account at a time with any amounts rolled over and contributions still subject to the \$18,000 cumulative annual limit. The provisions allowing ABLE account rollovers are due to sunset at the end of 2025.

ABLE accounts function like a checking account in that the custodians of the account provide statements showing and detailing expenses paid from the account, which greatly assists the owner for ease of administration and record keeping. If utilized with an eye toward that end, payments and the account's statements can be made to function as a record to document that all expenditures of the ABLE account owner were proper ones. Some states, such as Ohio, even permit a debit card that may be utilized in conjunction with the ABLE account, and eligible disabled persons may open an ABLE account in another state.

ABLE account owners may accumulate over \$300,000 in the account, depending on the state's program structure parameters, but only \$100,000 of that amount would be exempt from public benefit asset or resource limits. The funds may be invested in a set of predetermined investment options that can produce a range of expected rates of return. A significant benefit of an ABLE account is that if an account owner ever exceeds the \$100,000 exemption limit, public benefits are suspended until the account drops back below the exceeded threshold. But keep in mind, the assets kept in the ABLE account may be subject to public benefit reimbursement claims and probate at the owner's death; although, some states, like California, have opted out of seeking reimbursement from ABLE accounts provided the owner resided in the state and utilized its ABLE account program.

Unfortunately, not all persons with disabilities may establish an ABLE account; to be eligible to open an ABLE account, the individual must have had a disability that had an onset prior to age 26. Changes in the law were passed in 2022, which increases the age of onset to age 46; however, the law does not go into effect until 2026. Employing an ABLE account in conjunction with other tools available to individuals with special needs may help to round out an effective and efficient overall strategy.

This material references 529 ABLE accounts, which are available through state sponsored programs. Please check with the applicable state programs for information on qualified expenses, eligibility, and contribution limits. Neither New York Life Insurance Company nor its agents offer these products or provide guidance on the investment options. Please seek guidance from the individual state programs regarding repayment from the ABLE account at the beneficiary's death for the cost of care covered by Medicaid and the possible loss of SSI benefits due to a high account balance. Securities are offered by Registered Representatives of NYLIFE Securities LLC, Member FINRA/SIPC, a Licensed Insurance Agency. This tax-related discussion reflects an understanding of generally applicable rules and was prepared to assist in the promotion or marketing of the transactions or matters addressed. It is not intended (and cannot be used by any taxpayer) for the purpose of avoiding any IRS penalties that may be imposed upon the taxpayer. New York Life Insurance Company, its agents, and employees may not provide legal, tax, or accounting advice. Individuals should consult their own professional advisors before implementing any planning strategies. © 2016 New York Life Insurance Company. All rights reserved. The Nautilus Group® is a service of New York Life Insurance Company. SMRU 5016505 Exp. 02.28.2026